[redacted]

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

January 21, 1994

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 92-296*

On behalf of *Pacific Bell and Nevada Bell*, please find enclosed an original and six copies of their "*Reply Comments*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Sherry Herauf /dm

Sherry L. Herauf

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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| In the Matter of | ) | |
| | ) | |
| Simplification of the Depreciation Prescription Process | ) | CC Docket No. 92-296 |
| | ) | |

# REPLY COMMENTS OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell respectfully reply to the comments filed in response to the Order Inviting Comments, released November 12, 1993 in the above-captioned docket.[1] The OIC proposes to apply the streamlined depreciation prescription procedures adopted for local exchange carriers ("LECs") subject to price cap regulation. The comments responded to the Commission's proposed projection life and future net salvage ranges for selected accounts.

From the comments it is clear that the carriers that will be subject to the new procedures agreed with the position set forth in Pacific Bell and Nevada Bell's Comments:[2] that the accounts subject to the new process are too limited to yield substantial benefit; that the previous authorized streamlined

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1 Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Report and Order, FCC 93-452, released October 20, 1993; FCC 93-291, Order Inviting Comments, released November 12, 1993, ("OIC").

2 Comments of Pacific Bell and Nevada Bell, dated December 17, 1993 ("Comments").

process be permitted; that the ranges are too narrow and other factors do not appear to have been considered in setting the ranges; and that ranges must be set based on forward-looking factors or they will be inadequate to permit adequate recovery in these times of accelerated technological and competitive change.

## I. THE LIMITED ACTION PROPOSED BY THE OIC HAS SEVERE DRAWBACKS.

### A. The Benefits Of Simplification Will Not Be Realized Until More Accounts Are Included.

The limited number of accounts for which ranges have been proposed severely limits the extent of simplification. Most LECs reported that the large accounts in which the greatest amount of LEC investment resides are unaffected by the simplification effort.[3] In fact, most LECs report that the simplification effort will not apply to between 60-70% of their plant investment.[4] The net simplification accomplished by the proposal is negligible, if at all, by beginning with these small accounts. Real simplification will not be available this represcription period or until the Commission attends to the major investment accounts.

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3 Comments of the Southern New England Telephone Company, "SNET") p. 2; Comments by Ameritech, p. 6; Bell Atlantic Comments on Proposed Account Life and Salvage Ranges, p. 2; Comments of BellSouth, ("BellSouth") p. 2; NYNEX's Comments, ("NYNEX") p. 2; Comments of US West Communications, Inc., ("US West") p. 2 .

4 Twenty one of the Commission's 22 range accounts potentially apply to Pacific Bell. Pacific Bell plans to file using the ranges for 10 accounts which represent 13.3% of its total depreciable plant.

B. Ranges Are Insufficient To Keep Pace With The Rapid Changes In Technology And Market Conditions.

Almost unanimously, the LECs oppose the proposed ranges as too narrow and not forward-looking. The limited ranges will not provide LECs with the flexibility needed to meet the rapidly changing technological and market conditions.

The LECs' responses to the OIC do not support NARUC's statement that the proposed ranges provide flexibility to a substantial number of carriers, thus enabling them to utilize the simplification process.[5] To the contrary, the LECs clearly object to the lack of flexibility because of the narrow ranges proposed.

In part the narrowness of the range and resulting inflexibility results from the data upon which the ranges were determined. In our Comments, we propose that ranges be developed based on forward-looking data.[6] The accelerated speed of change in the industry demands that the Commission provide forward-looking ranges to permit carriers to keep pace with their competitors. Just since the filing of our Comments, Pacific Bell has announced its plan to invest $16 billion to provide an

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5 Initial Comments of the National Association of Regulatory Utility Commissioners, dated December 17, 1993, ("NARUC"), p. 4. MCI's similar statement is also mistaken. Comments, MCI, December 17, 1993 ("MCI").

6 Comments, p. 5.

advanced integrated broadband telecommunications network;[7] cable companies announce their intent to provide telephone service over their cable facilities;[8] interexchange carriers and competitive access providers will soon provide local exchange service over their facilities.[9] Forward-looking data is available. We endorse BellSouth's recommendation that the Commission use the data provided for the most recent LEC represcriptions to establish the initial ranges for the technology accounts.[10]

In addition to using forward-looking data, the data used to determine the ranges should also be representative of all

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[7] See "Pacific Bell Unveils Plan to Deploy Broadband Local Distribution Network to 5.5 Million Homes by Year 2000," Telecommunications Reports, Vol. 59, No. 46, November 15, 1993, at 1-3.

[8] Jones Intercable and MCI announced plans to conduct a trial of telephone service over Jones' cable system in Alexandria, Virginia and Chicago. See "Cable Telephony Trials Planned Next Year in Alexandria and Chicago", Communications Daily, November 23, 1993 at 2. Bell Atlantic/TCI announced it would be providing local exchange services in Pacific Bell's service area. John Eckhouse, "Bell Atlantic Challenges Pacific Bell", San Francisco Chronicle, January 14, 1994 at B1; Time Warner has requested authority from the California Public Utilities Commission to provide competitive access service across California, beginning in San Diego, using the fiber facilities leased from Southwestern Cable TV, a wholly owned subsidiary of Time Warner Cable. "Time Warner Unit Plans CAP Services in Calif.; Pacific Bell Objects," Telecommunications Reports, (BRP Publications, Washington, D.C.), June 28, 1993, at 8-9.

[9] John Keller, "MCI is Planning Local Networks in Major Cities, WALL ST. J., December 30, 1993, at A3. "MFS Unveils 'One-Step' Local/Long Distance Services, Plans Rollout in 60 to 70 Cities Within Five Years", Telecommunications Reports, (BRP Publications, Washington, D.C.), October 11, 1993, at 9-10.

[10] BellSouth, p. 9.

industry participants.[11] In order to permit LECs to keep pace with their competitors, data from competitors should be included. Competitors will use similar technology to provide services. The imminent entry of competitors into the local exchange services marketplace means that data drawn only from LECs cannot provide a basis for accurate useful life projections.

It is especially important for the lower end of the range to be forward-looking. Experience shows that the Commission does shorten the projected lives of assets over time. As it gains experience with an asset, the Commission reduces its projected life. This has been the case most recently for Pacific Bell with the Digital Switching account. The Commission prescribed a projected life of 20 years in 1988, a projected life of 19 years in 1991 and is currently prescribing projected lives for 1993 represcription companies from 16.5 to 17.5 years. But the adjustments are slow in coming and the effect, until adjustments are made, is disasterous. NYNEX provides a graphic example in its Comments. It reports that the depreciation expense for the crossbar account rose from $10 per access line to a stunning $125 per access line. Every carrier could relate similar stories. The deficiency that results must be avoided and can be by forward-looking lower ranges.

The Commission should reject the recommendation by Missouri that the proposed ranges be restricted so that the upper

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11 SNET, p. 3.

bound would be no more than 20% beyond the lower bound.[12] Missouri's recommendation is arbitrary and unsupportable. The Commission's determination of appropriate depreciation rates should be based on appropriately recovering the investment given the useful life of the asset. The prescription should stand on its own merits and should not be corrupted by misplaced notions of arbitrary limits.

## II. DEPRECIATION IS NOT A REWARD FOR ACHIEVING PUBLIC POLICY OBJECTIVES.

Some commentors misunderstand the purpose of depreciation by suggesting that the proposed ranges and methodology should be supported because they appropriately reward carrier modernization effort[13] or because increased depreciation will fund reinvestment.[14] Depreciation should not be held out as a reward for a carrier's behavior, whether for past behavior (such as past modernization efforts) or future behavior (such as reinvestment in additional plant). Depreciation expense is an element of the cost of operations --

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12 Missouri Public Service Commission Comments, December 17, 1993, ("Missouri"), p. 3.

13 MCI at p. 5.

14 Utah is also incorrect in requiring that depreciation lives reflect the projected corporate commitments to network modernization and equipment replacement. Comments by: State of Utah Department of Commerce, Division of Public Utilities, December 17, 1993, ("Utah"), p. 1.

the cost of property consumed in the course of operations.[15] The purpose of depreciation expense is solely to recover past investment in plant. Depreciation is intended to return the cost of previous plant investments (less net salvage) over the useful life of the plant. Depreciation rates should be determined on the basis of that useful life; not on the basis of whether or not specific public policies have been accomplished. The use of depreciation rates as reward is inappropriate. Moreover, as the Commission acknowledged in the Report and Order, there is no requirement that additional revenue from increases in depreciation expenses actually be spent on infrastructure development.[16]

## III. MISSOURI'S RECOMMENDATIONS FOR NON-METALLIC CABLE SHOULD NOT BE ADOPTED.

The Commission should not adopt Missouri's recommendation to revise the projection life ranges for the non-metallic cable accounts from 25-30 years to a range of 35-40 years. First, Missouri's reliance on life indications as a basis for projected life ranges is misplaced.[17] Life indications are not a reasonable indicator, but just one kind of data to be

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15 Depreciation Subcommittee of the National Association of Regulatory Utility Commissioners. Public Utility Depreciation Practices. Washington D.C. National Association of Regulatory Utility Commissioners, 1968, p. 82, para. 2.a.

16 Report and Order, para. 52.

17 Missouri, p. 4.

factored into any analysis. Life indications are of particularly limited use with new technology. Because life indications span the entire history of an asset, the long term reliability of life indicators can be especially misleading in the early years of deployment.

Missouri's evaluation of the potential obsolescence of nonmetallic cable is incorrect. Significant changes have already influenced the projected life for fiber. For example, multi-mode fiber has been replaced by single mode fiber.[18] Early single mode fiber, which is incompatible with SONET, has since been succeeded by a later generation of single mode.[19] And, contrary to Missouri's evaluation, fiber is subject to physical deterioration as well as technological obsolescence that must be factored into the determination of projected life range.

Similarly, Missouri's recommendation to reduce the range for future net salvage for underground non-metallic cable is not well founded. The recommendation appears to be based on an oversimplified notion of the removal process for underground fiber. There is no less need for engineering, safety and operational procedures to salvage fiber as there is for metallic cable. Removal costs will likely be similar for both media.

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18 See US West, Attachment 2, Telecommunications Equipment Depreciation -- Looking to the Future, Dr. L. K. Vanston, p. 18.

19 SONET is the optical fiber network transmission standard which establishes a flexible and efficient digital format for transporting a wide range of telecommunications services over optical fiber cable.

## IV. CONCLUSION

As the clear majority of commentors reported in this proceedings, the Commission can significantly improve the simplification effects for carriers by establishing ranges for all accounts that will permit appropriate recovery of assets in keeping with the tremendous technological and marketplace changes in the telecommunications industry.

Respectfully submitted,

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Date: January 21, 1994

CERTIFICATE OF SERVICE

I, S. B. Ard, hereby certify that copies of the foregoing "REPLY COMMENTS OF PACIFIC BELL AND NEVADA BELL", re CC Dkt 92-296, were served by hand or by first-class United States mail, postage prepaid, upon the parties appearing on the attached Service List this 21st day of January, 1994.

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